Committee on the Internal Market and Consumer Protection

2010/2303 (INI)

1.3.2011

OPINION

of the Committee on the Internal Market and Consumer Protection

for the Committee on Economic and Monetary Affairs

on corporate governance in financial institutions
(2010/2303(INI))

Rapporteur: Othmar Karas

SUGGESTIONS

The Committee on the Internal Market and Consumer Protection calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Emphasises that the proper functioning of the internal market depends on the stability of the financial system and, related to this, on the trust put by European citizens and consumers in financial institutions and transactions; notes that the remuneration systems used to date have led to inappropriate structures;

2. Recognises that the financial crisis has revealed the lack of effectiveness of existing corporate governance principles based on a ‘comply or explain’ approach; believes that practicable, legally binding corporate governance provisions are needed;

3. Is aware that in the wake of the financial crisis it has become clear that the quality of consumer protection and safeguards in the financial services sector requires tangible and strong improvement, particularly as regards the monitoring and supervisory aspects;

4. Stresses, in view of the fact that the financial sector, because of its particular role in the economy and its general social responsibility, also has a particular responsibility for serious, sustainable business strategies and must therefore be appropriately remunerated, that bonus payments should encourage long-term performance and discourage short-term thinking in order to prevent risky business practices;

5. Believes that the financial sector should meet the needs of the real economy, help to promote sustainable growth and display the greatest possible degree of social responsibility;

6. Supports the Commission’s aim of changing the remuneration policy of financial institutions with a view to restraining excessive risk-taking,

7. Acknowledges that structural approaches differ among Member States; encourages practices which strengthen corporate governance according to the legal form, size, nature, complexity and business model of the financial institution;

8. Stresses that a well-governed company should be accountable and transparent to its employees, its shareholders and other stakeholders; reaffirms that directors of financial institutions have to take account of their institution’s, as well as of consumers’ and employees’, long-term interests when taking decisions, in order to minimise risks; this can be accomplished by a legislative requirement for every regulated financial institution in the European Union to describe its business model in its annual report with an explanation of the board’s risk appetite and its understanding of the risk inherent in delivery of the business model; the report should further include a description of the steps the board has taken to ensure that these risks are overseen and managed, and of how remuneration policy is aligned to the delivery of the business model and the management by executives of the risk involved;

9. Emphasises that corporate management and remuneration policies must comply with and foster the principles of wage parity and equal treatment of women and men established by the Treaties and by EU directives;

10. Agrees that it is necessary to strengthen measures at EU level to prevent conflicts of interest in order to safeguard the objectivity and independence of judgement of board members across the banking, securities and insurance sectors;

11. Is of the opinion that both senior management and the board of directors should be actually and personally accountable and liable for the setting up and application of corporate governance principles at all levels of the company/corporation;

12. Stresses that risk is intrinsic and necessary in the financial sector in the interests of providing liquidity, fostering competitiveness and helping deliver economic growth and jobs; a thorough understanding and appreciation of risk on the part of boards is absolutely vital in order to avoid a future financial crisis;

13. Welcomes the changes to remuneration policy that have already been introduced by financial institutions, whereby bonuses are linked to the long-term success of the business and only paid out after three years at the earliest; also welcomes the fact that it is possible to demand repayment of bonuses if economic objectives have not been met;

14. Calls upon the Commission to propose legislation concerning mandatory board risk committees or equivalent arrangements, and rules on their composition and function; takes the view that members of risk committees should devote enough time to this duty to be in a position to assess properly the risks associated with complex financial instruments;

15. Urges the Commission to propose sector-specific amendments to financial services legislation in order to ensure consistency between banking and non-banking institutions in remuneration policy; furthermore, calls on the Commission to bring forward legislative proposals in the field of company law to help address corporate governance issues and ensure consistency in remuneration policy for all types of companies;

16. Encourages institutional shareholders to engage in a dialogue with financial institutions on improving corporate governance and risk management with a view to the long-term viability of the financial institution; believes that ‘comply or explain’ approaches in the form of guidelines have failed as a useful means of avoiding financial crises and have proved to be ineffective, and that binding rules need to be at the core of corporate governance regulation, complemented by soft regulation such as an international code of best practice;

17. Stresses the importance of a strict remuneration policy as foreseen in the Capital Requirements Directive (CRD III)[1]and Solvency II; and expects these and other existing legislative measures to be rapidly implemented from January 2011; calls upon the Commission to publish an evaluation report in 2014;

[1] Directive 2010/76/EU, OJ L 329, 14.12.2010, p. 3.

18. Calls upon Member States to put in place specific initiatives to ensure better representation of women on boards of directors;

19. Calls for efficient implementation of the rules on consultation and employee participation systems opted for in the context of Directive 2001/86/EC[1]supplementing the Statute for a European Company.

[1] OJ L 294, 10.11.2001, p. 22

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	28.2.2011
Result of final vote	+: 30 –: 0 0: 0
Members present for the final vote	Pablo Arias Echeverría, Cristian Silviu Buşoi, Anna Maria Corazza Bildt, António Fernando Correia De Campos, Jürgen Creutzmann, Christian Engström, Louis Grech, Małgorzata Handzlik, Philippe Juvin, Eija-Riitta Korhola, Mitro Repo, Robert Rochefort, Zuzana Roithová, Heide Rühle, Christel Schaldemose, Andreas Schwab, Catherine Stihler, Kyriacos Triantaphyllides, Bernadette Vergnaud, Barbara Weiler
Substitute(s) present for the final vote	Damien Abad, Cornelis de Jong, María Irigoyen Pérez, Constance Le Grip, Emma McClarkin, Antonyia Parvanova, Konstantinos Poupakis, Sylvana Rapti, Olga Sehnalová, Wim van de Camp